



TESTIMONY OF MARK PRICE
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 Council of the City of Philadelphia
 Committee on Labor and Civil Service
 Hearing on Bill #180846
 Tuesday, November 20th, 2018

My name is Mark Price and I hold a Ph.D. in economics from the University of Utah. I am a Labor Economist at the Keystone Research Center (KRC), a non-partisan economic think tank based in Harrisburg. I'm submitting to council this testimony in support of Bill #180846 which would gradually phase in a minimum wage of \$15 an hour for employees of city contractors.

For many people in this community, wages are so low that they don't even cover rent and the cost of getting around, forcing people to rely on the food bank to help make ends meet.

Recent analysis of U.S. Department of Agriculture data found over 300,000 people in the city were food insecure, meaning they lacked access to enough food to lead a healthy lifestyle.¹

To illustrate the financial challenges people in this city face the Economic Policy Institute has estimated the cost of living² for a single adult (Table 1) in Philadelphia. When you sum the monthly costs for rent³ (\$744), food⁴ (\$265), transportation⁵ (\$548), health care⁶ (\$361), other necessities⁷ (\$407) and taxes⁸ (\$460) a single adult in the city needs \$2,785 a month to get by. Working full-time a worker earning \$15 would fall just short of that budget earning \$2,600 a month. Add just one child to that household and a very basic monthly family budget climbs to \$4,743 well beyond the take home pay of workers earning \$15 an hour.

Table 1. Monthly Budget for Single Adult With No Children in Philadelphia¹

	HOUSING	\$744
	FOOD	\$265
	CHILD CARE	\$0
	TRANSPORTATION	\$548
	HEALTH CARE	\$361
	OTHER NECESSITIES	\$407
	TAXES	\$460
	MONTHLY EXPENSES	\$2,785
	MONTHLY INCOME AT \$15/hour	\$2,600

Here I will note the federal poverty threshold for a single adult translates into a monthly income of \$1,063 and to \$1,408 for an adult with one child. The cost of living here imposes real hardship that extends well beyond the officially poor.

Although the city's economy is strong the benefits of that strength are not broadly shared. The unemployment rate in the city of Philadelphia as of September stood at 5.2%, that's

the lowest September unemployment rate in the city in 28 years. And yet when we examine incomes, we find that for the top 20 percent of households in the city incomes are up over 2007 by 13% while incomes after adjusting for inflation for the bottom 60% of household remain at or below their levels in 2007.⁹

We establish a minimum wage so as to overcome the lack of bargaining power of low-wage workers which limits their capacity to negotiate livable wages and to negotiate higher wages as the economy and profitability expands. Because minimum wage increases federally and in Pennsylvania are infrequent the minimum wage has both fallen behind the growth in overall prices but also behind the growth in wages for the typical Pennsylvania worker. We estimate the median wage for full-time full-year workers in Pennsylvania was \$3.15 an hour in 1968, the minimum wage in that year was \$1.60 per hour putting the minimum wage at 51 percent of what the typical worker made. Fast forward to today and the minimum wage at \$7.25 is less than third of the median wage.¹⁰

Today, in the Pennsylvania Legislature, there is a proposal to raise the minimum wage to \$15 per hour by 2024. An increase in the minimum wage to \$15 per hour would boost the wages of 253,698, or 39.7%, of the city's resident workforce. In total, wages in Philadelphia would increase by \$1.1 billion.

While we wait for the General Assembly to act on the minimum wage it is appropriate for the City Council to take the very modest step of raising the wage floor that prevails for workers employed by private contractors providing services to the city. These ordinances common throughout the country and known as living wage ordinances seek to make the public sector a model employer.

While this ordinance can be expected to increase contracting costs for the city it's important to recognize that the failure to pay livable wages now imposes costs on workers, their families and the community. When a fair day's work doesn't come with a fair day's pay the line at the local food bank or for housing assistance gets a little longer. The City of Philadelphia more than any other employer is aware of enormous challenges posed by low wages and the stresses those shortfalls create for public services. The ordinance being considered by council today makes sure that the city's contracting practices are not part of the larger problem of low wages.

Indexing Wages to Wage Growth Rather Than Consumer Prices

The proposed ordinance recommends using the Consumer Price Index in July 2023 to adjust the \$15 wage floor annually for changes in the cost of living.

Currently, 18 states, including New York, New Jersey, Ohio, and the District of Columbia, adjust their state level minimum wage annually to reflect changes in consumer prices using the consumer price index.

As an alternative to using consumer prices, The Raise the Wage Act of 2017¹¹ introduced in the U.S. Senate in 2017 proposed indexing the minimum wage to changes in the median wage. The advantage of using growth in wages rather than prices is that it more directly

reflects conditions in labor markets than consumer prices, where volatile components like food and energy prices tend to be driven by economic factors unrelated to labor market conditions.¹²

Table 2 adjusts the minimum wage of \$7.15 established in 2007 to the growth in a wage series and one regional price index to illustrate how the minimum wage would have changed if the General Assembly opted to adjust the minimum wage to reflect either growth in wages or prices. The columns in Table 2 present the value of the minimum wage after adjusting it to match the growth in: median weekly earnings of full-time workers in Pennsylvania (column 2)¹³ and using the Consumer Price Index for all urban consumers in our region (Column 3).¹⁴

Using growth in median weekly wages for full-time workers in Pennsylvania it would be \$9.48 an hour. Using the consumer price index it would be \$8.61 per hour. On average using consumer prices would have increased the minimum wage by about 12 cents a year, using the growth average weekly wages would have increased the minimum wage by 19 cents a year. These differences are small but for low-wage workers even these small differences count.

To sum up, our recommendation is that starting in July 2023 Bill #180846 adjusts the \$15-dollar per hour wage floor using the growth in median weekly wages for full-time Pennsylvania workers rather than the Consumer Price Index. Such an adjustment will do a slightly better job than an adjustment based on prices in limiting the growth in inequality in Philadelphia’s labor market by ensuring wages for the lowest-paid earners rise in step with earnings growth for the typical worker.

Table 2.

Indexing the Pennsylvania Minimum Wage of \$7.15 to Wage and Price Growth		
<i>Column 1</i>	<i>Column 2</i>	<i>Column 3</i>
Year	Median Weekly Earnings, Full-time workers, Pennsylvania ²	Consumer Price Index ⁴
2008	\$7.37	\$7.40
2009	\$7.63	\$7.61
2010	\$7.93	\$7.61
2011	\$8.13	\$7.73
2012	\$8.20	\$7.97
2013	\$8.31	\$8.14
2014	\$8.44	\$8.16
2015	\$8.53	\$8.29
2016	\$8.86	\$8.33
2017	\$9.08	\$8.44
2018	\$9.35	\$8.51
2019	\$9.48	\$8.61
Average Annual Change	\$0.19	\$0.12

¹ The minimum wage in 2007 of \$7.15 is adjusted annually based on the annual change in median earnings for full-time workers in Pennsylvania. Go to <https://data.bls.gov/cgi-bin/srgate> and enter the following series id: LEU0252881542. See endnote 13 for more details.

² The minimum wage is increased each year from \$7.15 by the percent change in the Consumer Price Index for all Urban Consumers (CPI-U) for the Pennsylvania, New Jersey, Delaware and Maryland as calculated by the Chief Clerk of the Senate and the Chief Clerk of the House of Representatives for the Cost-of-Living Factor under the Public Official Compensation Law. See endnote 14 for more details.

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- ¹ Hunger Free America. 2018. “Philadelphia Falling Behind in Freedom to Eat: Greater Philadelphia Hunger Report, 2018:” <https://www.hungerfreeamerica.org/sites/default/files/atoms/files/Philadelphia%20Hunger%20Report%202018.pdf>
- ² Economic Policy Institute, Family Budget Calculator, <https://www.epi.org/resources/budget/>
- ³ Housing costs are based on the Department of Housing and Urban Development’s fair market rents, which represent rental costs (shelter rent plus utilities) at the 40th percentile in a given area for privately owned, structurally safe, and sanitary rental housing of a modest nature with suitable amenities. Studio apartments were used for one-adult families, one-bedroom apartments for two-adult families, two-bedroom apartments for families with one or two children, and three-bedroom apartments for families with three or four children.
- ⁴ Food costs are based on the U.S. Department of Agriculture’s national “low-cost” food plan and adjusted to each area using multipliers from Feeding America’s Map the Meal Gap data. The low-cost plan is the second-least-expensive of the four Official USDA Food Plans and assumes almost all food is bought at the grocery store and then prepared at home. The USDA food plans represent the amount families need to spend to achieve nutritionally adequate diets.
- ⁵ Transportation expenses are a combination of the costs of auto ownership, auto use, and transit use. Transportation cost data were provided by the Center for Neighborhood Technology (CNT). CNT created a modified version of transportation costs from its Housing and Transportation Affordability Index to account for differences in family types in the Family Budget Calculator.
- ⁶ Health care expenses include insurance premiums and out-of-pocket costs, and assume families purchase the lowest cost bronze plans on the health insurance exchange established under the Affordable Care Act. Data on premiums come from the Kaiser Family Foundation and the U.S. Department of Health and Human Services (HHS). Out-of-pocket medical costs are calculated from HHS’s Medical Expenditure Panel Survey.
- ⁷ Other necessities include apparel, personal care, household supplies (which include items ranging from furnishings to cleaning supplies to phone service), reading materials, and school supplies. The costs for these items come from the Bureau of Labor Statistics Consumer Expenditure Survey, and use data reported for households in the second (from the bottom) fifth of households in the household income distribution.
- ⁸ Taxes are calculated from the National Bureau of Economic Research’s Internet TAXSIM, an online tool that calculates information on federal personal income taxes, state income taxes, and federal Social Security and Medicare payroll taxes.
- ⁹ Mark Price. 2018. “The State of Working Philadelphia.” Keystone Research Center. <https://www.keystoneresearch.org/SWPPHL2018>
- ¹⁰ We estimate the median wage for full-time full-year workers in Pennsylvania is \$23.91 per hour, with the minimum wage at \$7.25
- ¹¹ Raise the Wage Act, S.1242, 115th Cong. (2017). <https://www.congress.gov/bill/115th-congress/senate-bill/1242>
- ¹² For more on the economics behind indexing to the median wage see Ben Zipperer, “Bolstering the bottom by indexing the minimum wage to the median wage,” Washington Center for Equitable Growth, July 2015, <http://equitablegrowth.org/research-analysis/bolstering-bottom-indexing-minimum-wage-median-wage/>
- ¹³ Pennsylvania data in this series is only available since 2012, for year over year change from 2007 to 2012 we use the U.S. data from 2006 to 2012. As of November 15, 2018, the most current available annual estimate from this series is for 2017. We are therefore assuming that the 2019 wage adjustment will be based on the annual change from 2016 to 2017. At the beginning of the series this means the 2008 wage adjustment is based on the year over year change in this series from 2005 to 2006.
- ¹⁴ Annual change in this series were originally estimated by the Chief Clerk of the Senate and the Chief Clerk of the House of Representatives and based on the Consumer Price Index for all Urban Consumers (CPI-U) for the Pennsylvania, New Jersey, Delaware and Maryland. The estimate for 2019 is calculated as the percent change from the average of this index over the period from November 1, 2016 through October 31, 2017 to the average of this index over the period from November 1, 2017 through October 31, 2018.